

MUNICIPALITY OF ANCHORAGE, ALASKA



COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended December 31, 2008

**Mark Begich
Mayor**

**Prepared by:
Finance Department**

**Sharon Weddleton, CPA
CFO**

**Teresa L. Peterson, CPA
Controller**

Cover photo courtesy of Chris Richardson.

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Introductory Section



Municipality of Anchorage

P.O. Box 196650 • Anchorage, Alaska 99519-6650 • Telephone: (907) 343-6576 • Fax: (907) 343-4400 <http://www.muni.org>

*Matt Claman,
Acting Mayor*

Department of Finance Controller Division

June 11, 2009

Honorable Mayor, Members of the Assembly, and
Citizens of the Municipality of Anchorage:

The Comprehensive Annual Financial Report (CAFR) of the Municipality of Anchorage (Anchorage) for the year ended December 31, 2008, is hereby submitted in accordance with Anchorage Home Rule Charter and Anchorage Municipal Code. These laws require an annual report on financial and administrative activities with an independent audit of all municipal accounts by a certified public accountant. Mikunda, Cottrell & Co. performed the independent audit. Management is responsible for the accuracy, completeness and fairness of the presentation including all disclosures.

Accounting principles generally accepted in the United States of America require management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. Anchorage's MD&A can be found in the Financial Section of the CAFR immediately following the report of the independent auditors.

The CAFR is presented in three sections - Introductory, Financial and Statistical. The Introductory section, which is unaudited, includes this letter of transmittal, a certificate of achievement for excellence in financial reporting for Anchorage's 2007 CAFR, a list of principal elected and appointed officials, and an organization chart. The Financial section includes the MD&A, the independent auditor's report on the financial statements and schedules, the basic financial statements, additional required supplementary information, and the combining financial statements. The unaudited Statistical Section includes a broad range of selected trend data and non-financial information.

As a recipient of federal grant awards, Anchorage is required to undergo an audit in accordance with the provisions of the U.S. Office of Management and Budget's (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and associated *Compliance Supplement*. A schedule of expenditures of federal awards, the independent auditor's reports on internal controls and compliance with applicable laws and regulations, and a schedule of findings and questioned costs will be included in a separately issued audit in accordance with OMB Circular A-133.

As a recipient of state grant awards, Anchorage is also required to undergo an audit in accordance with the provisions of Alaska State Regulation 2 AAC 45.010 and *Audit Guide and Compliance Supplement for State Single Audits*. A state financial assistance schedule, the independent auditor's reports on internal controls and compliance with applicable laws and regulations, and a schedule of findings and questioned costs will be included in separately issued State Financial Assistance Reports.

Mikunda, Cottrell & Co. was retained to perform both the financial and the compliance audits of Federal and State financial assistance programs for the year ended December 31, 2008. These audits were performed in accordance with federal and state regulations and *Government Auditing Standards*.

Mikunda, Cottrell & Co. audited all 2008 financial records except for those of one component unit, Alaska Center for the Performing Arts, Inc., and the Police & Fire Retirement Pension Trust Funds. Mikunda, Cottrell & Co.'s reports are included in the financial section of the CAFR and in both financial assistance reports. The excluded component unit and pension trust funds were audited by certified public accountants who issued unqualified reports.

Government Profile

The City of Anchorage was originally incorporated in 1920 and unified with the Greater Anchorage Area Borough in 1975 to create the Municipality of Anchorage. Anchorage encompasses approximately 1,955 square miles.

Anchorage is operated under a strong mayoral system with an eleven member Assembly serving as the legislative branch. Leading the executive branch, the Mayor is responsible for appointing top executives and running the day to day governmental activities. The Assembly is responsible for approving ordinances, municipal contracts, budgets, and certain appointments. A compilation of municipal ordinances can be reviewed on-line in the Anchorage Municipal Code at www.muni.org.

Anchorage provides a full range of services, including police, fire, emergency medical protection, health and human services, construction/maintenance of infrastructure, recreation activities, and public transportation. Many of these services are provided on a service area basis with taxpayers residing in different taxing districts paying for only those services they authorize and receive.

The Assembly and administration are responsible for and committed to establishing and maintaining an internal control structure designed to provide reasonable assurance that Anchorage's assets are protected from loss, theft or misuse, and that adequate accounting records are maintained for preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. The concept of reasonable assurance recognizes that the cost of controls should not exceed the benefit likely to be derived and that valuation of costs and benefits requires the use of estimates and judgments.

The Assembly approves operating budgets and appropriations of direct costs at the department level, and revenues, direct costs and indirect costs at the fund level. During the year, the Assembly may approve supplemental appropriations to increase or decrease the budget, or to transfer all or part of any unencumbered balance from one appropriation to another. The Assembly by ordinance may authorize a contract, lease or other obligation requiring financing from future appropriations. A lease purchase agreement with respect to acquisition of a capital improvement valued in excess of \$1 million is not valid until approved by the voters. The Mayor may transfer all or part of an unencumbered balance between categories within an appropriation. No obligation involving the expenditure of money may be made unless the Chief Fiscal Officer has certified that the funds required have been appropriated and are available for that purpose.

The accounting records are maintained on a budgetary basis whereby encumbrances are recorded for budgetary control. However, year-end financial statements present actual amounts in conformity with accounting principles generally accepted in the United States of America which excludes encumbrances.

The financial reporting entity includes the following component units for which Anchorage is financially accountable - Anchorage School District (ASD), Alaska Center for the Performing Arts, Inc., Cooperative Services Authority, CIVICventures, and Anchorage Community Development Authority. Additional information on all five of these component units can be found in the notes to the financial statements.

Anchorage owns and operates several utilities and other enterprise activities including electric, water, wastewater, refuse collection, solid waste disposal, port, and Municipal airport. Anchorage contracts out management of its sports arena, convention center, ice arenas, golf courses and equestrian center.

Additional information regarding Anchorage's government, services, current events, economic indicators and other statistics is located on its municipal web site at www.muni.org.

Major Initiatives

Port Expansion

The \$700 million expansion project of the Port of Anchorage (Port) is underway. This is the first project of its kind, with the Federal Maritime Administration Agency (MARAD) overseeing the construction of the expansion project. As MARAD completes the construction of capital assets and turns them over to Anchorage over the next few years, the assets will be recorded on the Port's financial statements.

Convention Center

Construction of the Dena'ina Civic and Convention Center (Center) was completed on schedule and placed into service in September 2008. The construction of the Center is funded through the lodging tax and is overseen by Anchorage's blended component unit, CIVICVentures.

Local Economy

The information presented in the financial statements is better understood when it is considered from the broader perspective of the specific environment within which Anchorage operates.

Anchorage has an approximate population of 285,000 and has been experiencing growth at a rate of 0.4% annually over the last few years. As the largest city in Alaska, Anchorage is home to approximately 42% of the state's residents.

As of June 30, 2008, the ASD had 48,440 students enrolled for the 2007-2006 academic year, a slight decrease from prior year. Anchorage is also home to the University of Alaska Anchorage, a state operated university, and Alaska Pacific University, a private independent university. They have combined enrollments in excess of 20,000 students.

Employment growth in Anchorage has increased for the past twenty years, although the growth was slight in 2008 at less than 1%. The average unemployment rate in 2008 of 5.3% increased slightly from the 2007 rate, but was slightly under the national average of 5.8%.

Anchorage has several major sectors that drive the local economy, including oil/gas, construction, transportation, and tourism. These sectors, along with the supporting businesses that have developed around these core sectors, have provided twenty years of consecutive economic growth, although the growth has slowed. Statewide, mining and mineral production has continued to do well, although due to a sharp decline in commodity prices in late 2008, the industry has slowed. Although most of the mining employment is outside of the Anchorage area, the overall statewide economic growth indirectly benefits Anchorage as one of the largest retail centers in the state. The addition of the 240,000 square-foot Glenn Square retail development, and the 900,000 square-foot Tikahtnu Commons retail development, which both opened in 2008, have attracted new retailers to the area, such as Target. These developments will continue into 2009.

For most of 2008, the oil/gas sector continued to experience record high prices, which benefited the economy in many ways, including employment. Major oil/gas companies, such as ConocoPhillips and BP,

are continuing to invest billions in exploration and development projects. This is reflected in the record number of workers on the North Slope during 2008, increasing by 300 jobs over the prior year. The outlook for 2009 anticipates no significant changes in employment in the Anchorage. The industry also anticipates continued progress on the in-state gas line Denali, the joint venture between BP and ConocoPhillips, and also on the TransCanada natural gas pipeline project.

Anchorage has a large and growing military presence with the location of three main operating posts: Elmendorf Air Force Base, Fort Richardson Army Post, and Kulis Air National Guard base. Although the Kulis Air National Guard base is slated for closure, the command and air assets will be transferred to Elmendorf Air Force Base. Thousands of military personnel are employed by these three military posts and, along with their family members, aid the local economy by supporting local businesses. The deployment in early 2009 of 3,500 soldiers from Fort Richardson will have an impact on the economy.

The transportation sector consists of air cargo activity at the Ted Stevens Anchorage International Airport; in-state freight and passenger transportation by the State of Alaska owned Alaska Railroad; and maritime transportation through the municipal-owned Port. The Ted Stevens Anchorage International Airport continues to be one of the busiest cargo airports in the world, although transit cargo volume decreased by 15% from the previous year. It was ranked fifth in tonnage volume in 2008, down from third in 2007. This sector of the local economy is expected to decline in 2009. The Alaska Railroad continued to have another year of growth during 2008, reporting \$12.6 million in net income. The Port is ice free year round and is served by two major maritime carriers, Totem Ocean Trailer Express and Horizon Lines. With approximately 90% of all consumer goods arriving in Alaska through the port facilities, servicing 80% of the population of Alaska, the Port has begun construction of a \$700 million expansion project involving road/rail extensions and marine terminal redevelopment. Improving cargo flow through expanded berth capacity, accommodating larger ships with deeper drafts, supporting new military rapid deployment requirements, and upgrading cruise ship facilities are the major objectives of this expansion project.

The tourism sector is a major economic driver for Anchorage that offers a central location, available transportation infrastructure, and abundant recreational opportunities. In addition to the Anchorage region's sport fishing and tourism destinations, visitors often use Anchorage as the gateway to other Alaska destinations. As a result of the slowdown in the national and international economies, tourism activities slowed during 2008 with lodging tax revenues exceeding \$22 million, a slight increase from 2007. The anticipation for 2009 is that this sector of the local economy will be affected considerably by the national economic situation. On a brighter note, the new Dena'ina Convention Center has booked numerous future national conventions. The 215,000 square foot Center will significantly increase the size and number of conventions that can be held locally. Anchorage's hotel industry continues to expand with the construction of three new hotels expected to open in 2009, adding over 400 rooms to Anchorage's approximate 8,000 existing rooms.

Long-term Financial Planning

Anchorage has no legal debt limit mandated by its Charter, Code or State law. Anchorage continues to maintain outstanding credit ratings on all outstanding debt. Current long-term Municipality General Obligation bond ratings are AA by Standard and Poor's (S&P) and AA by Fitch Ratings (Fitch). These ratings were unchanged in 2008. The Anchorage Water Utility bond ratings are AA by S&P and AA- by Fitch. The Anchorage Wastewater Utility bond ratings are AA Stable by S&P and AA- Stable by Fitch. In January 2009, the Anchorage Water and the Wastewater Utility bond ratings were upgraded from AA- to AA for the Water and from A+ to AA for the Wastewater Bonds. The Anchorage Municipal Light & Power Senior Lien and Junior Lien Electric revenue bond ratings are A+Stable by S&P and A+Stable by Fitch. The Port was assigned the rating of A by S&P in March 2008. Revenue bond covenants stipulating debt service coverage requirements were met in 2008.

Anchorage's percentage of net general obligation debt to assessed valuation and bonded debt per capita are useful indicators to citizens and investors of Anchorage's debt position. The percentage of net direct general obligation debt, exclusive of ASD debt, to assessed valuation was 1.56% as of December 31, 2008, and the net direct general obligation debt per capita was \$1,669. The respective amounts as of December 31, 2007 were 1.51% and \$1,557. When ASD debt is included, net direct general obligation debt to assessed value is 3.65% (3.21% in 2007) and the net direct general obligation debt per capita is \$3,918 (\$3,308 in 2007).

Awards and Acknowledgements

Anchorage and its employees are committed to the goal of making Anchorage a better place to live, work, and raise families.

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Anchorage for its CAFR for the fiscal year ended December 31, 2007. This was the twenty-first consecutive year that Anchorage has received this prestigious award. In order to be awarded a Certificate of Achievement, the government must publish an easily readable and efficiently organized CAFR. Our 2007 report satisfied both Generally Accepted Accounting Principles and applicable legal requirements.

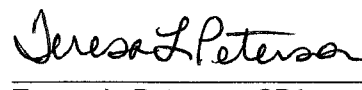
A Certificate of Achievement is valid for a period of one year only. It is believed that our current report continues to conform to the Certificate of Achievement program requirements. The report will be submitted to GFOA to determine its eligibility for another certification.

The preparation of the CAFR was made possible by the dedicated efforts of the entire Controller Division staff. We express sincere appreciation to our employees for their contribution to this report whether it was in processing daily transactions or in report preparation. We also express our appreciation to all other individuals who assisted in this effort.

Respectfully submitted:



Sharon Weddleton, CPA
CFO



Teresa L. Peterson, CPA
Controller

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Municipality of Anchorage
Alaska

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2007

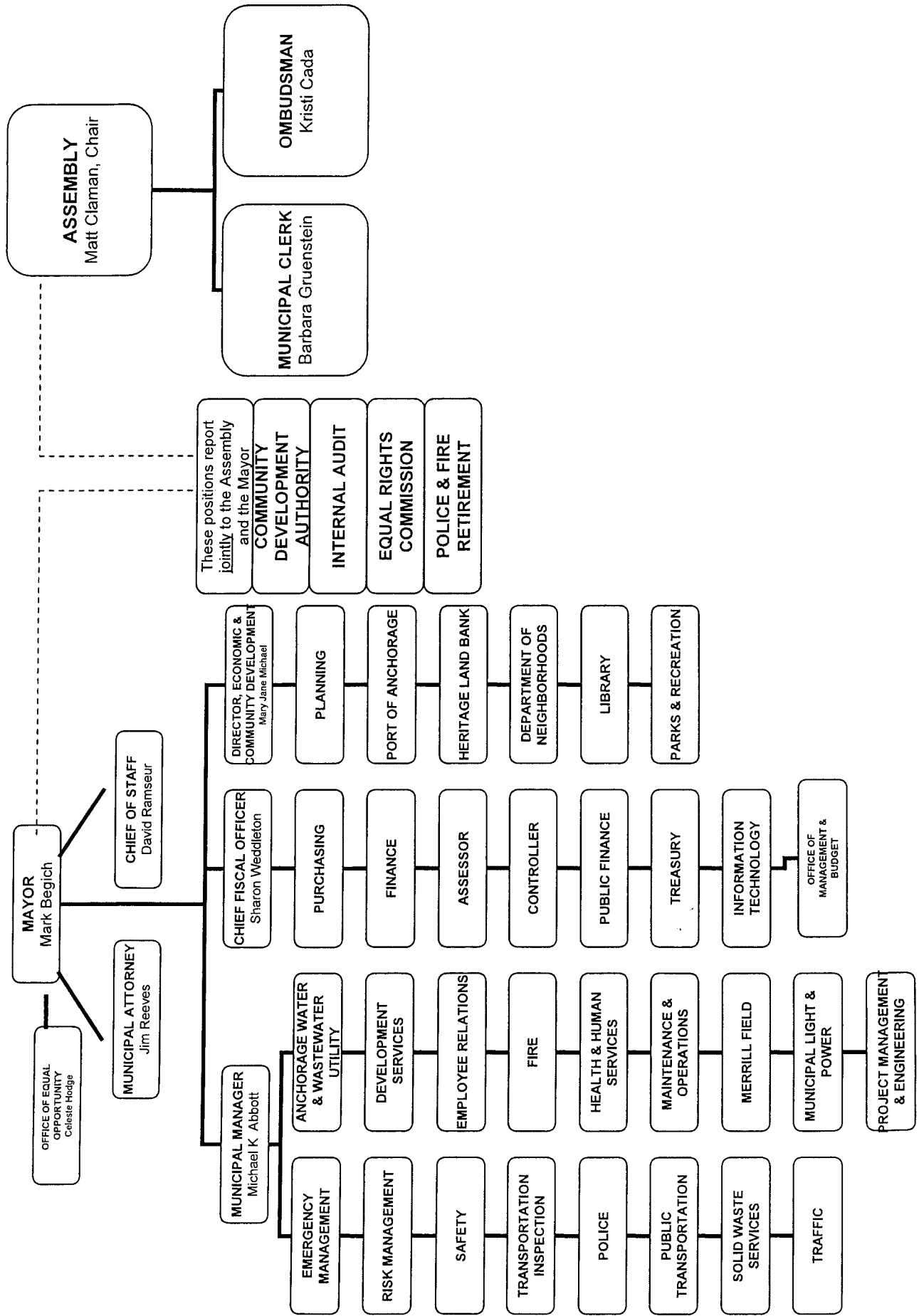
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

MOA ORGANIZATION CHART - 2008



MUNICIPALITY OF ANCHORAGE

2008

PRINCIPAL OFFICIALS

ASSEMBLY

The legislative power of Anchorage is vested in an eleven member elected assembly. The Assembly, by Charter, is required to meet twice each month. The body meets on Tuesdays in the Assembly Chambers at 3600 Denali Street (Z.J. Loussac Library). Numerous special meetings and work sessions are scheduled throughout the year. At December 31, 2008, the following citizens were elected to serve on the Assembly.

Matt Claman, Chair

Chris Birch	Dan Coffey
Harriet Drummond, Vice Chair	Patrick Flynn
Elvi Gray-Jackson	Mike Gutierrez
Jennifer Johnston	Debbie Ossiander
Sheila Selkregg	Bill Starr

Barbara Gruenstein, Municipal Clerk

ADMINISTRATION

Mark Begich, Mayor

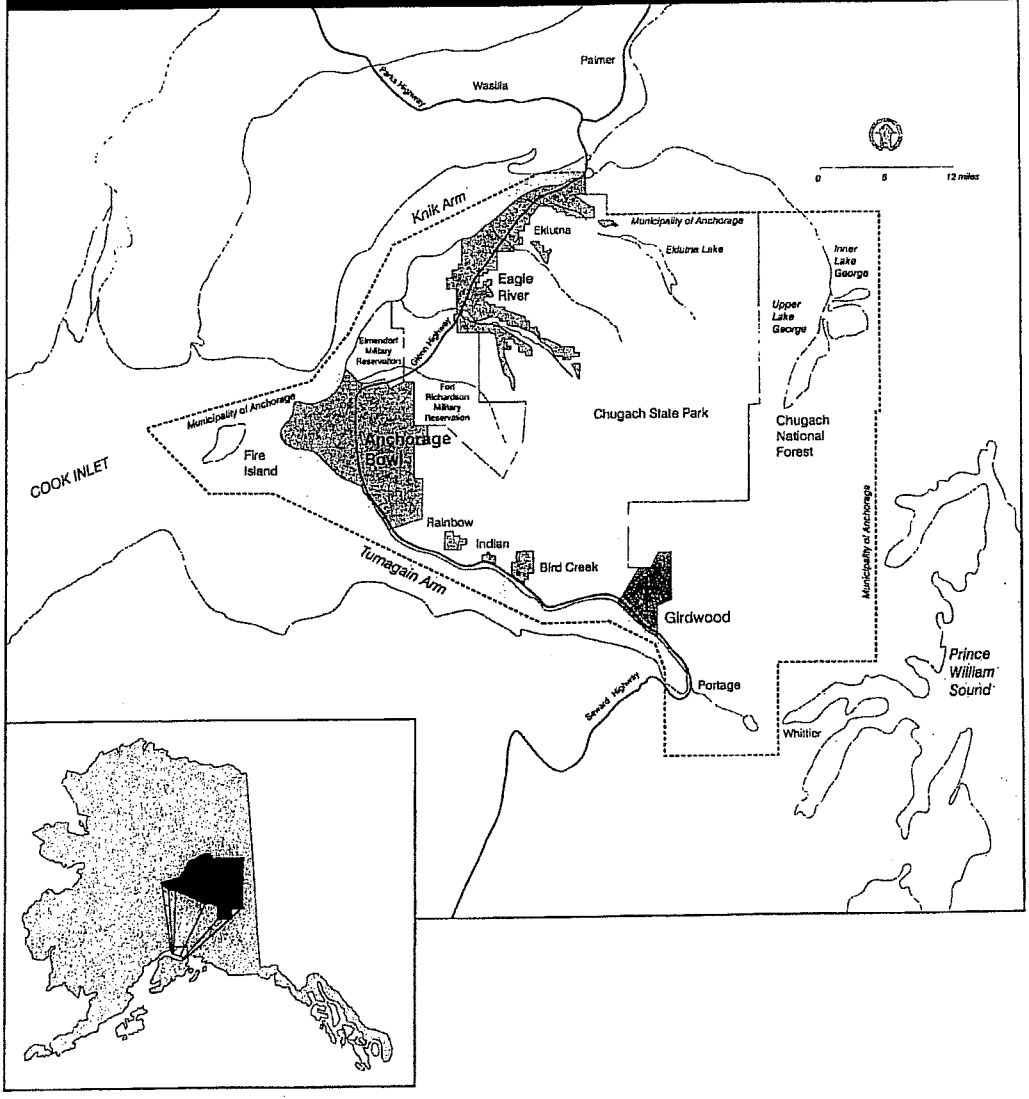
Michael K. Abbott, Municipal Manager

Jim Reeves, Municipal Attorney

Sharon Weddleton, CFO

Mary Jane Michael, Director Economic & Community Development

Municipality of Anchorage Vicinity Map



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